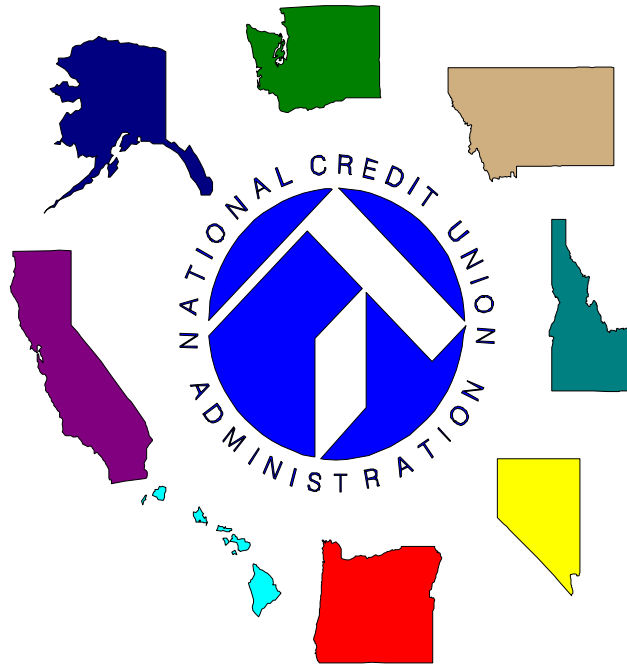


PACIFIC REGION

1996 YEAR-END FINANCIAL TRENDS FOR FEDERALLY INSURED CREDIT UNIONS



DECEMBER 31, 1996

FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS

JANUARY 1, 1996 TO DECEMBER 31, 1996

HIGHLIGHTS

This report summarizes the financial trends of federally insured credit unions located in the Pacific Region for 1996. These 1,294 credit unions account for \$70 billion in assets, \$62 billion in shares, \$45 billion in loans, and \$22 billion in investments. Federally insured credit unions experienced high loan and share growth with another year of strong profitability and continued capital growth. Specifically:

- * **Assets** of federally insured credit unions increased 6.8% in 1996.
- * **Capital** accumulation continued, increasing 11.0% in 1996. The current capital to asset ratio of 11.1% exceeds the December 1995 capital ratio of 10.7%.
- * **Loans** increased 11.0% in 1996, continuing a trend of sustained loan growth.
- * **Shares** grew 6.2% in 1996, slightly under the 7.3% share growth of 1995. The loan to share ratio is 72.7%, compared to the December 1995 ratio of 69.6%.
- * **Investments** declined 0.73% as funds were used to meet high loan demand.
- * **Profitability** remained strong, as measured by the return on assets ratio, at the 1.0% rate.
- * **Liquidity** remained consistent, with borrowings as a percent of total shares and capital at 0.2%, the same as December 1995.
- * **Delinquency** in terms of dollars was higher by 2.0% from December 1995. However, the ratio of delinquent loans to total loans remains at the December 1995 level of 0.9%.

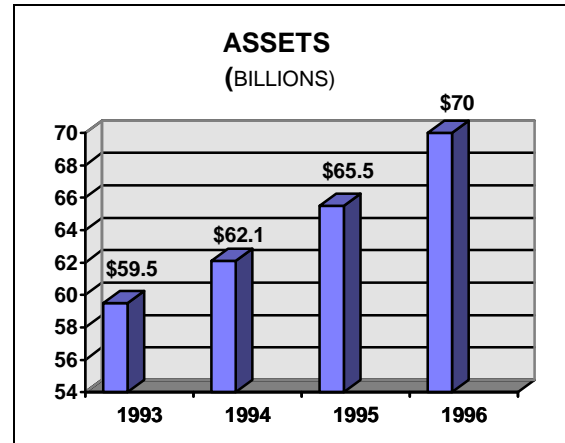
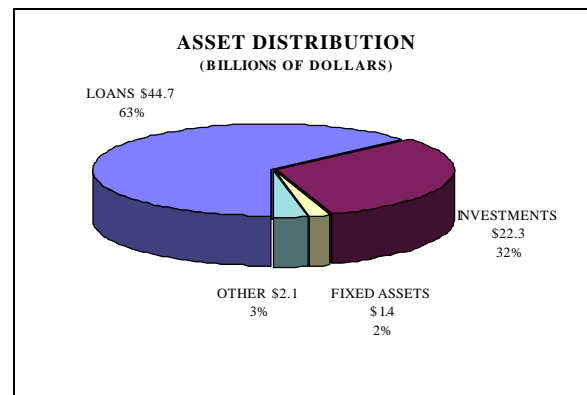


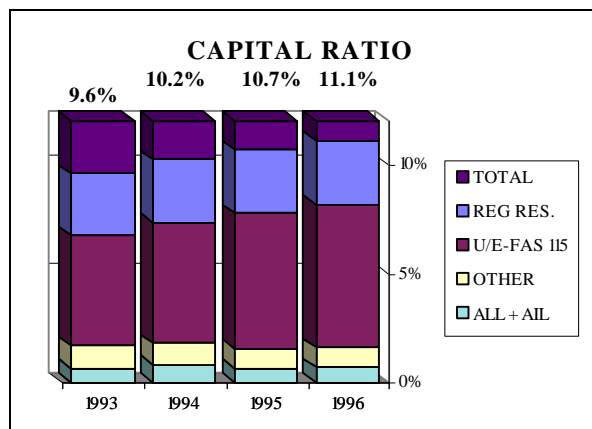
Table 1 - Growth Rates

	Dollar Amount (In Billions)	1996 Growth Rate
Total Assets	\$ 70.0	6.8%
Net Loans	\$ 44.2	11.0%
Investments	\$ 22.3	-0.73%
Fixed Assets	\$ 1.4	8.3%
Other Assets	\$ 2.1	7.1%
Liabilities	\$ 1.2	10.3%
Savings	\$ 61.5	6.2%
Equity	\$ 7.3	11.0%
Capital	\$ 7.8	11.0%



CAPITAL

Capital¹ increased at an 11.0% rate in 1996, and exceeded the 6.8% asset growth. The \$7.8 billion in total capital and 11.1% capital to total asset ratio is higher than the December 1995 \$7.3 billion and 10.7% capital ratio. The 1996 net capital² to asset ratio of 10.5% is higher than the December 1995 ratio of 10.1%.



The new SFAS 115³ equity account for accumulated unrealized gains and losses on available for sale securities, which became an additional component of capital in 1995, was reported as -\$46.7 million. This figure represents approximately 0.6% of total capital, up from 0.4% at December 1995. If this account was excluded from the calculation of total capital, the capital to asset ratio would measure 11% as of December 31, 1996.

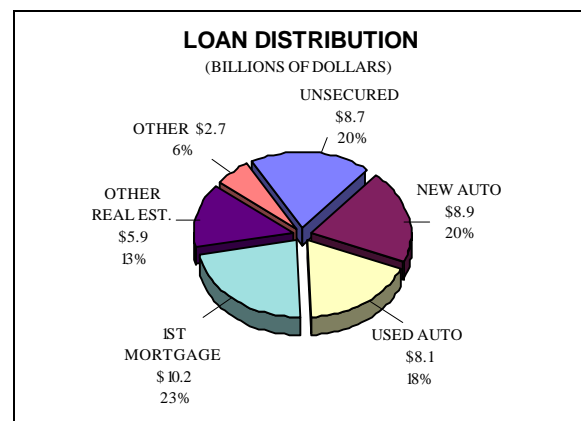
¹Capital is defined as the sum of regular reserves, accumulated unrealized gains and losses on available for sale securities, other reserves, undivided earnings, allowance for loan losses, and the net income of credit unions which did not close their books.

²Net capital is defined as capital less classified assets. Classified assets are estimated by summing the allowance for loan losses, and the investment valuation reserve for state chartered credit unions.

³Statement of Financial Accounting Standard (SFAS) 115.

ASSET QUALITY

LOAN TRENDS: As of December 31, 1996, loans comprised 63.9% of assets, up slightly from 61.5% for year-end 1995. Loans increased at a rate of 11.0% for the year, well above the 3.7% loan growth of 1995. The \$4.4 billion increase in outstanding loans in 1996 was distributed throughout all of the various loan categories. Dollar volume increases were the largest in used vehicle and first mortgage real estate loans. Used vehicle loans increased \$1.4 billion or 20.4% while first mortgage real estate loans increased \$1.2 billion or 13.2%.

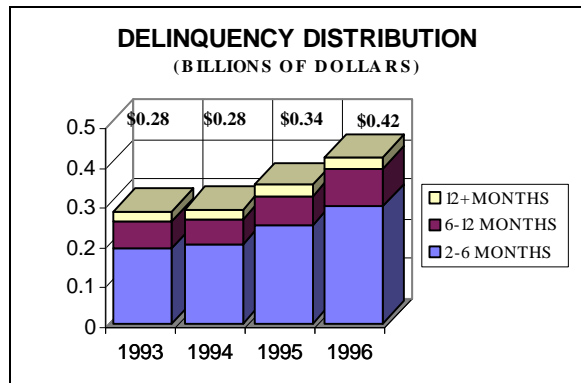


The largest real estate loan category to increase in 1996 was long term fixed rate loans. First mortgage fixed rate loans grew from \$5.4 billion to \$6.4 billion, up 19.3% since December 1995. Adjustable rate mortgage loans increased \$0.5 billion or 13%, home equity lines of credit increased \$0.3 billion or 9.7%, and all other real estate loans declined slightly by \$0.04 billion or 1.6%. As can be seen in the below table, loan originations are up in all categories of real estate loans.

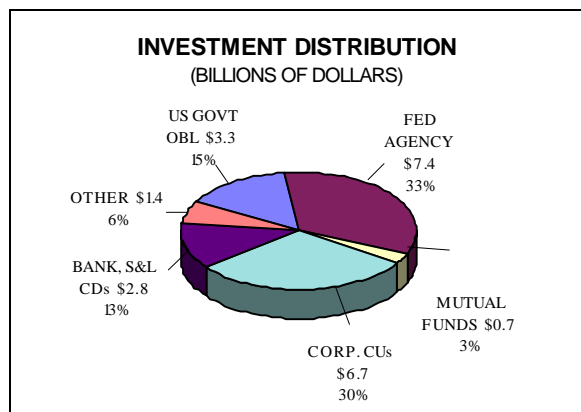
Table 2 - Real Estate Loan Originations

Billions of Dollars	1994	1995	1996
1st Mortgages	\$8.5	\$1.7	\$2.9
Other Real Estate	\$1.5	\$1.4	\$1.8
Secondary Market Sales	\$0.9	\$0.5	\$0.6

DELINQUENCY TRENDS: Delinquent loans increased by \$69.5 million since December 1995. However, the delinquency ratio of 0.9% at December 31, 1996, was the same as December 31, 1995. The 0.7% net charge-off ratio is higher than the 0.5% ratio at year-end 1995.



INVESTMENT TRENDS: Investments at year end 1996 represent 31.8% of total assets, compared to 34.2% at December 31, 1995. Total investments declined slightly by 0.73% during the year, compared to a slight increase of 0.7% last year. The decline in investments was used to fund the growing loan demand in 1996. The largest decline was in corporate investments which were down \$0.71 billion or 9.6%. Investments in banks and savings and loans declined \$0.2 billion or 6.2%. Federal Agency Securities increased \$0.4 billion or 5.7%, and U.S. Government Obligations increased \$0.5 billion or 2%.



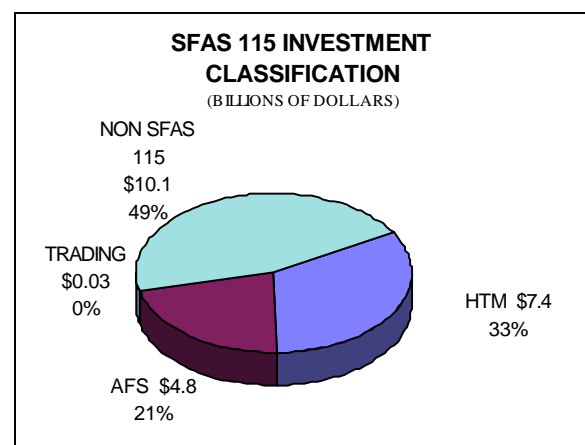
The overall composition of the investment portfolio is shifting slightly toward investments with longer maturities and repricing intervals:

Table 3 - Investment Maturities

Investment Maturity or Repricing Interval	% of Total Investments 1995	% of Total Investments 1996
Less than 1 year	61.9%	57.7%
1 to 3 years	24.4%	27.8%
Over 3 years	13.7%	18.9%

The shift in maturity reflects the increased investments in longer term Federal Agency Securities and U.S. Government Obligations noted previously. As will be seen in a later discussion of shares, member share certificates are up in 1996; however, shares maturing in more than one year declined. This trend contrasts the matching of the longer term assets with longer term certificates and may lead to unanticipated liquidity needs.

The following graph shows the break out of investments according to SFAS 115 classification system for December 1996. Since the Financial Accounting Standards Board granted one time opportunity to reclassify securities under the SFAS 115, (expired in December 1995¹) the percentages should remain relatively stable.



¹ Please refer to *NCUA Letter to Credit Unions*, Number 182, issued in November 1995.

EARNINGS

All profitability ratios remained virtually unchanged in 1996, when compared to 1995. They reflect continued positive commitment to sustained profitability. The following chart shows the changes in earnings ratios.

Table 4 - Earning Ratios

Percent of Average Assets	1995	1996
Gross Income	8.1%	8.3%
Net Operating Expense	2.6%	2.7%
Cost of Funds	3.5%	3.4%
Net Inc. (before transfers)	1.0%	1.0%
Net Inc. (after transfers)	0.9%	0.9%
Op. Expenses/Gross Inc.	39.0%	38.9%

Interest on borrowed money is down to \$13.5 million at December 31, 1996, lower by almost 50% over the 1995 \$22.4 million.

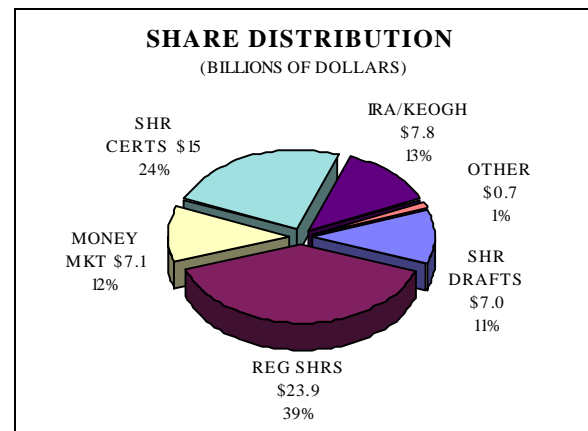
LIQUIDITY

OVERALL LIQUIDITY TRENDS: For 1996, loan growth outpaced share growth. The loan to share ratio rose from 69.6% at December 31, 1995, to a current 72.7% in 1996. Credit unions liquidated investments rather than borrow funds to meet the increased loan demand. As of December 1996, borrowings as a percentage of total shares and capital was 0.2%, the same as the 0.2% at the end of 1995.

SHARE TRENDS: Shares increased at an annualized rate of 6.2% for 1996, compared to 7.3% in 1995. As can be seen in the following table, shares increased in most categories. The largest increase was in share certificates, up \$2.1 billion or 16.3% over December 1995. Since December 1994, term certificates increased \$6.7 billion accounting for most of the \$6.8 billion increase in total shares over this same period. Share certificates were 24.4% of total shares at year end, up slightly from 22.3% at the end of 1995.

Table 5 - Savings Growth Rates

1995 to 1996	Dollar Amount (In Billions)	Growth Rate
Share Drafts	\$ 7.0	6.5%
Regular Shares	\$ 23.9	1.4%
Money Market	\$ 7.1	10.1%
Share Certs.	\$ 15.0	16.3%
IRA/Keogh	\$ 7.8	2.3%
All Other	\$ 0.7	-7.9%



Shares maturing in less than one year increased 7.4% (or \$3.9 billion), and currently comprise 92% of total shares. Shares maturing in one to three years decreased 1.4% (or \$.05 billion), while shares maturing in more than three years decreased 19.3% (or 0.2 billion). Although this trend does not correlate to the increasing longer term assets, liquidity is not a concern at this time.

SUMMARY

Credit unions in the Pacific Region are financially sound. Capital is strong, asset quality remains high, earnings are positive, loan growth is high and share deposits are up. Although assets are shifting to longer terms, liquidity is still being managed.